

Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 06707 01 OF 03 141938Z

64

ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 AID-05 CEA-01

CIAE-00 COME-00 EB-07 EA-06 FRB-03 INR-07 IO-10

NEA-09 NSAE-00 OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04

SIL-01 OMB-01 FEA-01 ERDA-05 DODE-00 FPC-01 H-02

INT-05 L-02 NSC-05 PM-03 SAM-01 OES-03 SS-15 STR-01

PA-01 PRS-01 XMB-02 USIE-00 OIC-02 AGR-05 /128 W

----- 056988

O 141912Z MAR 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 6001

LIMITED OFFICIAL USE SECTION 01 OF 03 OECD PARIS 06707

PASS TREASURY FOR PARSKY AND WIDMAN,
EB/IFD/OMA FOR RYAN

E. O. 11652: N/A

TAGS: EFIN, OECD, EINV, ENRG

SUBJECT: PAPERS FOR IEA AD HOC GROUP ON FINANCIAL AND
INVESTMENT ISSUES (FII): PART II(E) (PAPER
ON PRODUCERS' CLAIM FOR SAFE INVESTMENT OF
THEIR FUNDS THROUGH INDEXATION OF CAPITAL
ASSETS

REF: (A) OECD PARIS 5996; (B) OECD PARIS 5872;
(C) STATE 55605

1. MISSION HAS BEGUN RECEIVING FROM SECRETARIAT
PRELIMINARY DRAFTS OF "COMMENTS OF POSITION" PAPERS, IN
ACCORDANCE WITH ASSIGNMENT OF RESPONSIBILITIES MADE AT
LAST MEETING OF IEA GOVERNING BOARD AND OF AD HOC GROUP
ON FINANCIAL AND INVESTMENT ISSUES ON MARCH 6 (REFTEL
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 06707 01 OF 03 141938Z

A). INDIVIDUAL POSITION PAPERS WILL BE TRANSMITTED BY

SEPARATE CABLES'

2. THIS CABLE TRANSMITS THE FOLLOWING PAPER ENTITLED
PRODUCERS' CLAIM FOR SAFE INVESTMENT OF THEIR FUNDS
THROUGH INDEXATION OF CAPITAL ASSETS, WHICH CORRESPONDS
TO ITEM II(E) OF THE TABLE CONTAINED IN DOCUMENT
IEA/SPC(75)7 SECOND REVISION, CITED IN REFTEL A.

BEGIN TEXT

II(E) PRODUCERS' CLAIM FOR SAFE INVESTMENT OF THEIR
FUNDS THROUGH INDEXATION OF CAPITAL ASSETS

1. WITHIN CERTAIN LIMITS THE OIL EXPORTERS ARE IN A
POSITION TO PROTECT, DURING THE NEXT FEW YEARS, THE
PURCHASING POWER OF THEIR EXPORTS. BUT THEY HAVE
PRACTICALLY NO DIRECT MEANS OF PROTECTING THE REAL
VALUE OF THEIR "FINANCIAL ASSETS"(1) FROM EROSION
BY INFLATION, NOR CAN THEY EASILY OBTAIN POSITIVE
REAL RATES OF RETURN ON THEIR INVESTMENTS IN "REAL
ASSETS"(1) ABROAD UNDER THE HIGHLY ADVERSE BUSINESS
CONDITIONS CURRENTLY PREVAILING IN THE INDUSTRIAL
COUNTRIES. THIS APPLIES ALSO TO INVESTMENTS IN OTHER
DEVELOPING COUNTRIES, THE PROFITABILITY OF WHICH
LARGELY DEPENDS ON DEMAND CONDITIONS IN THE INDUSTRIAL
WORLD.

(FOOTNOTE 1: "FINANCIAL ASSETS" INCLUDE ALL CLAIMS
BEARING FIXED INTEREST RATES, BUT INDEXATION IS A
RELEVANT ISSUE ONLY FOR LONG-TERM FINANCIAL INVESTMENTS
(BONDS AND LOANS). "REAL ASSETS" INCLUDE PROPERTY,
PARTICIPATION RIGHTS AND EQUITY (SHARES AND CONVERTIBLE
BONDS), IRRESPECTIVE OF THE DEGREE OF CONTROL.)

2. IT IS IMPOSSIBLE TO SAY WHAT PART OF THEIR
SURPLUSES THE OIL PRODUCERS WILL WISH -- OR INDEED
BE ABLE -- TO INVEST IN REAL ASSETS AND
HENCE WHAT PART WILL BE KEPT IN LIQUID FORM OR
AVAILABLE FOR LONG-TERM FINANCIAL INVESTMENT. THE
QUESTION NONETHELESS ARISES AS TO WHETHER SPECIAL
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 06707 01 OF 03 141938Z

ARRANGEMENTS SHOULD BE CONSIDERED IN RESPECT OF
LONG-TERM FINANCIAL ASSETS MADE AVAILABLE TO OPEC
COUNTRIES. ONE LINE OF ARGUMENT IS THAT SOME SCHEME
FOR ENSURING, TO OPEC COUNTRIES WHAT THEY CONSIDER A
REASONABLE RATE OF RETURN ON FINANCIAL ASSETS MIGHT
PROVE AN INTEGRAL PART OF AN AGREEMENT ON OIL SUPPLY
AND PRICES. IF THE OPEC COUNTRIES WITH LOW
ABSORPTIVE CAPACITY IN RESPECT OF IMPORTS JUDGE THAT,

OVER THE NEXT FEW YEARS, THE RELATIVE PRICE OF OIL
IS GOING TO APPRECIATE, THEY MAY NOT WISH TO TRADE IT

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 06707 02 OF 03 142008Z

64

ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 AID-05 CEA-01

CIAE-00 COME-00 EB-07 EA-06 FRB-03 INR-07 IO-10

NEA-09 NSAE-00 OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04

SIL-01 OMB-01 FEA-01 ERDA-05 DODE-00 FPC-01 H-02

INT-05 L-02 NSC-05 PM-03 SAM-01 OES-03 SS-15 STR-01

PA-01 PRS-01 XMB-02 USIE-00 OIC-02 AGR-05 /128 W

----- 057545

O 141912Z MAR 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 6002

LIMITED OFFICIAL USE SECTION 02 OF 03 OECD PARIS 06707

FOR A FINANCIAL ASSET WHICH, AT LEAST FOR THE PRESENT,
IS EARNING A NEGATIVE REAL RATE OF INTEREST: EVEN IF
THEY EXPECT THE RELATIVE PRICE OF OIL TO REMAIN STABLE,
THEY MAY BE SIMILARLY DISINCLINED UNDER SUCH
CIRCUMSTANCES THERE MAY BE CALLS, IN RESPECT OF
FINANCIAL ASSETS, FOR EXCHANGE RATE GUARANTEES AND
FOR SOME FORM OF INDEXATION OF CAPITAL AND INTEREST
IN REAL TERMS.

3. THERE IS A PREREQUISITE FOR INDEXATION OF FINANCIAL
ASSETS. IT WOULD HAVE TO BE APPLIED TO A SPECIAL
CATEGORY OF ASSET-HOLDERS AND IMPLY VIRTUALLY COMPLETE
TRANSPARENCY. THE ACCEPTANCE OF SUCH TRANSPARENCY

PRESUPPOSES A DEGREE OF CONFIDENCE AMONG THE OIL EXPORTERS THAT MIGHT NOT EXIST AT PRESENT. SUCH A DIFFICULTY MIGHT BE ALLEVIATED BY EXTENDING THE GUARANTEE OF THE INDEXED ASSETS TO THE WHOLE INTERNATIONAL OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 06707 02 OF 03 142008Z

TIONAL COMMUNITY THROUGH THE IMF, RATHER THAN BASING IT ON A COMMITMENT BY AN INDIVIDUAL HOST COUNTRY. IT IS QUESTIONABLE, HOWEVER, WHETHER SUCH A MULTILATERALISATION IS TECHNICALLY FEASIBLE.

4. ASSUMING THE ACCEPTABILITY OF SPECIAL INDEXED ASSETS, THE FIRST QUESTION WOULD CONCERN THE FORM THESE ASSETS SHOULD TAKE. THE FINANCING PROBLEMS OF THE CONSUMING COUNTRIES SUGGEST THAT, FROM THEIR POINT OF VIEW, THE ASSETS WOULD NEED TO BE LONG-TERM BONDS WITH ONLY LIMITED MARKETABILITY.

5. IF BOTH PRINCIPAL AND INTEREST WERE TO BE INDEXED, DEBT SERVICING MIGHT TAKE ONE OF TWO EXTREME FORMS, OR AN INTERMEDIATE FORM. AT ONE EXTREME, LENDERS WOULD RECEIVE REAL (INDEXED) INTEREST PAYMENTS REGULARLY ACCORDING TO THE NORMAL SCHEDULE LAID DOWN BY THE LOAN TERMS, BUT THE INDEXATION COUNTERPART OF THE PRINCIPAL WOULD NOT BE PAID TILL MATURITY. AT THE OTHER EXTREME, THE INDEXATION COUNTERPART OF THE PRINCIPAL WOULD BE PAID OUT REGULARLY AT THE SAME TIME AS THE INDEXED INTEREST PAYMENTS⁽¹⁾. LENDERS EXPECTING THE MARKET RATE OF INTEREST TO RISE ABOVE THE RATE NEGOTIATED FOR THE BOND IN QUESTION WOULD PREFER THE SECOND METHOD -- AND MIGHT IN ANY CASE DO SO ON GROUNDS OF LIQUIDITY PREFERENCE OR TO MINIMISE THE RISK OF DEFAULT.

(FOOTNOTE: UNDER THE FIRST METHOD, IF A \$100 BOND IS ISSUED AT 3 PERCENT REAL INTEREST RATE AND IF PRICES RISE BY 10 PERCENT IN THE FIRST YEAR, THE INTEREST PAYMENT IS INCREASED BY 10 PERCENT AND BECOMES \$3.30, WHEREAS THE PRINCIPAL BECOMES \$110. UNDER THE SECOND METHOD THE INDEXED INTEREST PAYMENT IS COMBINED WITH PAYMENT OF THE INDEXATION COUNTERPART OF PRINCIPAL, SO THAT, IN THE ABOVE EXAMPLE, THE TOTAL PAYMENT IN THE FIRST YEAR BECOMES \$13.30.

6. AGREEMENT BETWEEN THE TWO PARTIES AS TO THE APPROPRIATE REAL INTEREST RATE MIGHT BE DIFFICULT. THIS WOULD PARTICULARLY BE THE CASE IF OIL PRODUCERS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 06707 02 OF 03 142008Z

JUDGED THE RELATIVE PRICE OF OIL LIKELY TO RISE --
OR AT LEAST REMAIN CONSTANT -- FOR SEVERAL YEARS
WHILE BORROWING COUNTRIES SAW A NEGATIVE REAL RATE
OF INTEREST (TYPICAL IN PERIODS OF HIGH INFLATION)
CONTINUING TO PREVAIL FOR SOME TIME. ONE POSSIBILITY
MIGHT BE TO GEAR THE REAL RATE OF INTEREST TO THE RATE
OF EXPANSION OF REAL GNP PER CAPITA IN OECD COUNTRIES,
THEREBY GIVING THE LENDERS A STAKE IN THE PROSPERITY
OF THE CONSUMING COUNTRIES. THIS COULD ACCENTUATE
DIVERGENCIES OF AIM BETWEEN THE LOW-ABSORPTIVE AND THE
HIGH-ABSORPTIVE OIL-PRODUCING COUNTRIES.

7. A SOMEWHAT SEPARATE ISSUE IS THE QUESTION OF
EXCHANGE RATE GUARANTEES. LONG TERM FINANCIAL ASSETS
WITH SUCH GUARANTEES EXIST ALREADY: THE IMF OIL
FACILITY IS DENOMINATED IN SDRS AND THERE ARE BONDS
AVAILABLE ON THE EURO-MARKET WHICH ARE DEFINED BY
REFERENCES TO A BASKET OF CURRENCIES. BY AND LARGE
THESE ASSETS PROTECT THE INVESTOR AGAINST EXCHANGE
RATE VARIATIONS AMONG THE MAJOR INDUSTRIAL COUNTRIES
AND THE NOMINAL INTEREST RATES OFFERED TAKE INTO ACCOUNT
THIS ADVANTAGE. AS INDICATED IN THE SEPARATE PAPER ON
INDEXATION OF THE OIL PRICE, SUCH EXCHANGE RATE
GUARANTEES WOULD ONLY BE NECESSARY IF BOTH THE ASSETS
AND THE REFERENCE SERIES WERE DENOMINATED IN A SINGLE
HOST CURRENCY. THERE HAVE BEEN SUGGESTIONS THAT BONDS

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 06707 03 OF 03 141934Z

44

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 INRE-00 AID-05

CEA-01 CIAE-00 COME-00 EB-07 EA-06 FRB-03 INR-07

IO-10 NEA-09 NSAE-00 OPIC-03 SP-02 TRSE-00 CIEP-01

LAB-04 SIL-01 OMB-01 ERDA-05 DODE-00 FEAE-00 FPC-01

H-02 INT-05 L-02 NSC-05 PM-03 SAM-01 OES-03 SS-15

STR-01 PA-01 PRS-01 XMB-02 USIE-00 OIC-02 AGR-05 /127 W

----- 056834

O 141912Z MAR 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 6003

LIMITED OFFICIAL USE SECTION 03 OF 03 OECD PARIS 06707

SHOULD BE DENOMINATED IN THE CURRENCIES OF OIL EXPORTING COUNTRIES. FOR INDUSTRIAL COUNTRIES THIS WOULD RAISE THE DANGER OF EXCHANGE RATE MANIPULATION BY OIL EXPORTING COUNTRIES -- WHICH, WITH NO APPRECIABLE EXPORT RECEIPTS FROM OTHER SOURCES, THEY ARE AT PRESENT RELATIVELY FREE TO DO.

8. ANY INDEXATION SCHEME WOULD INVOLVE CLEAR CONCESSIONAL TREATMENT FOR OPEC ASSETS. AT AN EARLIER STAGE, DISCUSSION IN OECD SHOWED SOME COUNTRIES UNWILLING TO CONCEDE TO OIL PRODUCERS ANY PRIVILEGES DENIED TO THEIR RESIDENTS OR TO OTHER NON-RESIDENTS IN THE FIELD OF INVESTMENT. IT CAN ALSO BE ARGUED THAT EXCEPT IN THE CASE OF THE VARIATION OUTLINED IN PARAGRAPH 6 ABOVE, SUCH TREATMENT WOULD TEND TO ABSOLVE OIL PRODUCING COUNTRIES FROM A SENSE OF RESPONSIBILITY FOR THE FINANCIAL
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 06707 03 OF 03 141934Z

STABILITY AND PROSPERITY OF THE COUNTRIES IN WHICH THE INVESTMENTS WERE MADE.

9. POINTS IN FAVOR OF SOME SUCH ARRANGEMENT MIGHT INCLUDE THE FACT THAT THE ASSETS IN QUESTION WOULD HAVE TO BE CLEARLY IDENTIFIABLE, AND OF STRICTLY LIMITED MARKETABILITY. SUCH AN ARRANGEMENT MIGHT REDUCE THE POTENTIAL VOLATILITY OF THE FUNDS AND ENABLE THEM MORE EASILY TO BE CHANNELLED IN DIRECTIONS HELPFUL TO INTERNATIONAL PAYMENTS BALANCE AND TO THE INVESTMENT EFFORTS INCUMBENT ON INDUSTRIALISED COUNTRIES IN THE YEARS IMMEDIATELY AHEAD. IT MIGHT ALSO REDUCE THE DESIRES OF OIL EXPORTING COUNTRIES TO ACQUIRE PARTICULARLY ATTRACTIVE REAL ASSETS IN A SMALL NUMBER OF COUNTRIES.

10. WHEREVER, FOR THE OECD COUNTRIES, THE BALANCE OF ADVANTAGE MIGHT LIE BETWEEN THESE CONSIDERATIONS,

INDEXATION WOULD SEEM TO REPRESENT A SUBSTANTIAL
CONCESSION ONLY TO BE ENVISAGED IN THE FRAMEWORK
OF A BROADER NEGOTIATION.
END TEXT

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, COMMITTEE MEETINGS, INVESTMENTS, MEETING PROCEEDINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OECDP06707
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750090-0569
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750350/aaaabszl.tel
Line Count: 335
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 OECD PARIS 5996, 75 OECD PARIS 5872
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 14 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 MAY 2003 by ElyME>; APPROVED <15 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PAPERS FOR IEA AD HOC GROUP ON FINANCIAL AND INVESTMENT ISSUES (FII): PART II(E) (PAPER
TAGS: EFIN, EINV, ENRG, OECD, IEA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006